

# Capital Budget 101

Senate Ways and Means Committee  
January 16, 2013

## Today's Presentation will cover:

- ✓ What is the Capital Budget
- ✓ Capital Budget Trends
- ✓ Brief Overview of Governor Gregoire's Capital Budget request
- ✓ Major Decisions for the 2013-15 Biennium

The Capital Budget buys Capital Assets and uses Debt

		Source of Funds	
		Debt Financed	Cash
What it Buys	Capital Assets	<u>Capital Budget</u>	<u>Mostly Capital</u> Some Operating
	Current Expenses	When administering Capital Projects	Mostly Operating <u>Some Capital</u>

# Principle of Debt Financing

**Don't take on debt for assets that depreciate faster than the debt is paid off.**

## The State Constitution limits State Debt

- ✓ The Treasurer can't issue a general obligation bond if the annual debt payment added to existing debt payments would exceed **9 percent** of the average annual **general revenue** for the **prior 3 years**.

# The State' Debt Limit

- ✓ The Treasurer can't issue a **general obligation bond** if the annual debt payment added to existing payments would exceed the average annual general revenue for the prior 3 years.

G.O. Bonds are debt backed by the Full Faith and Credit of the state and/or paid for by General Revenue

# The State' Debt Limit?

General Revenue is any money received in the Treasury that isn't tied to a specific purpose

can't issue a general obligation bond if the annual debt plus existing debt would exceed 9 percent of the average annual **general revenue** for the prior 3 years.

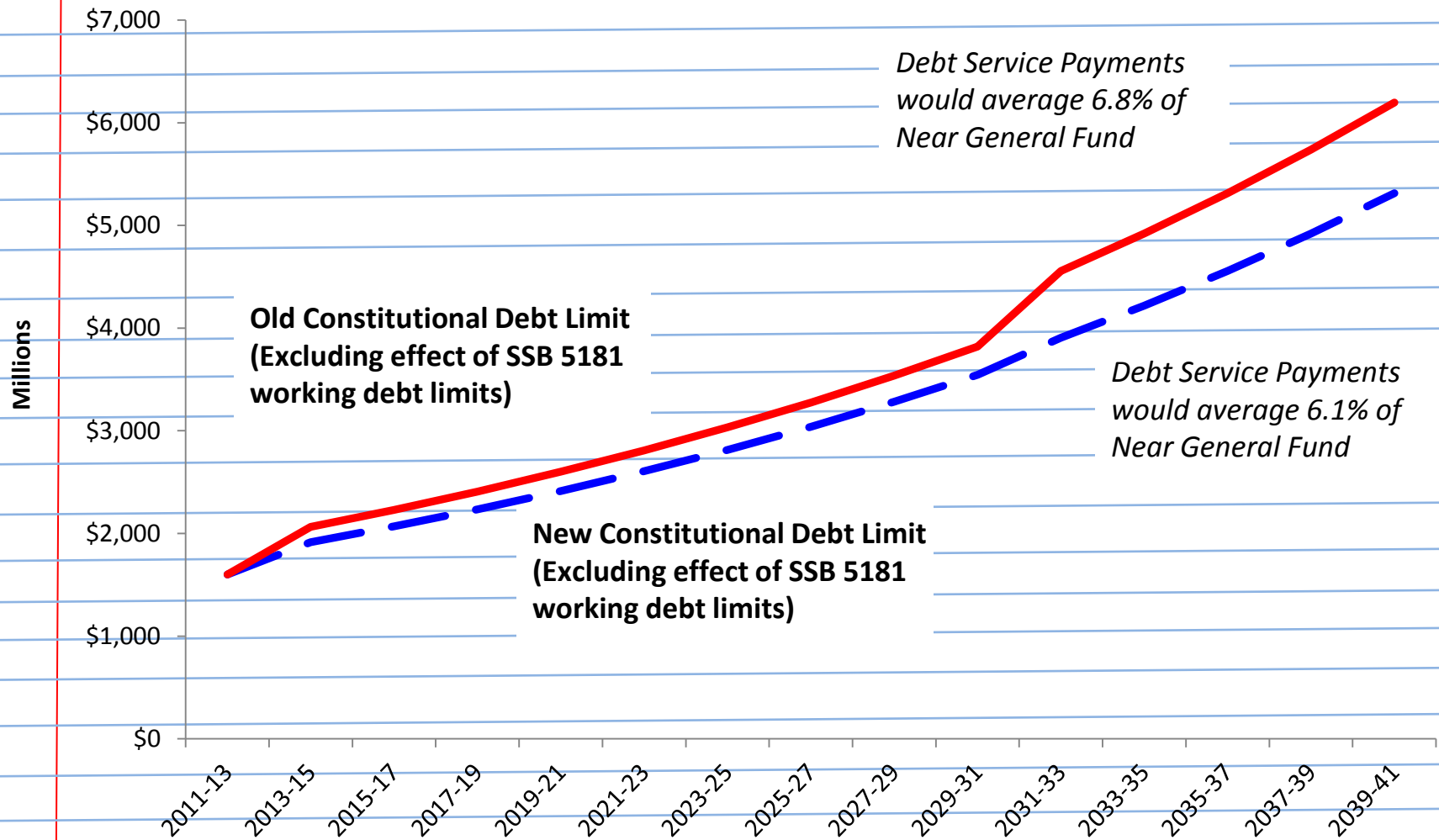
The State Debt Limit will change  
due to ratification of **SJR 8221**

	Moving Average	General Revenue	Percentage
Now	3 Years	Excl. Prop. Tax	9%
FY 2015	6 Years	Incl. Prop. Tax	8.5%
FY 2017	6 Years	Incl. Prop. Tax	8.25%
FY 2035	6 Years	Incl. Prop. Tax	<u>8%</u>



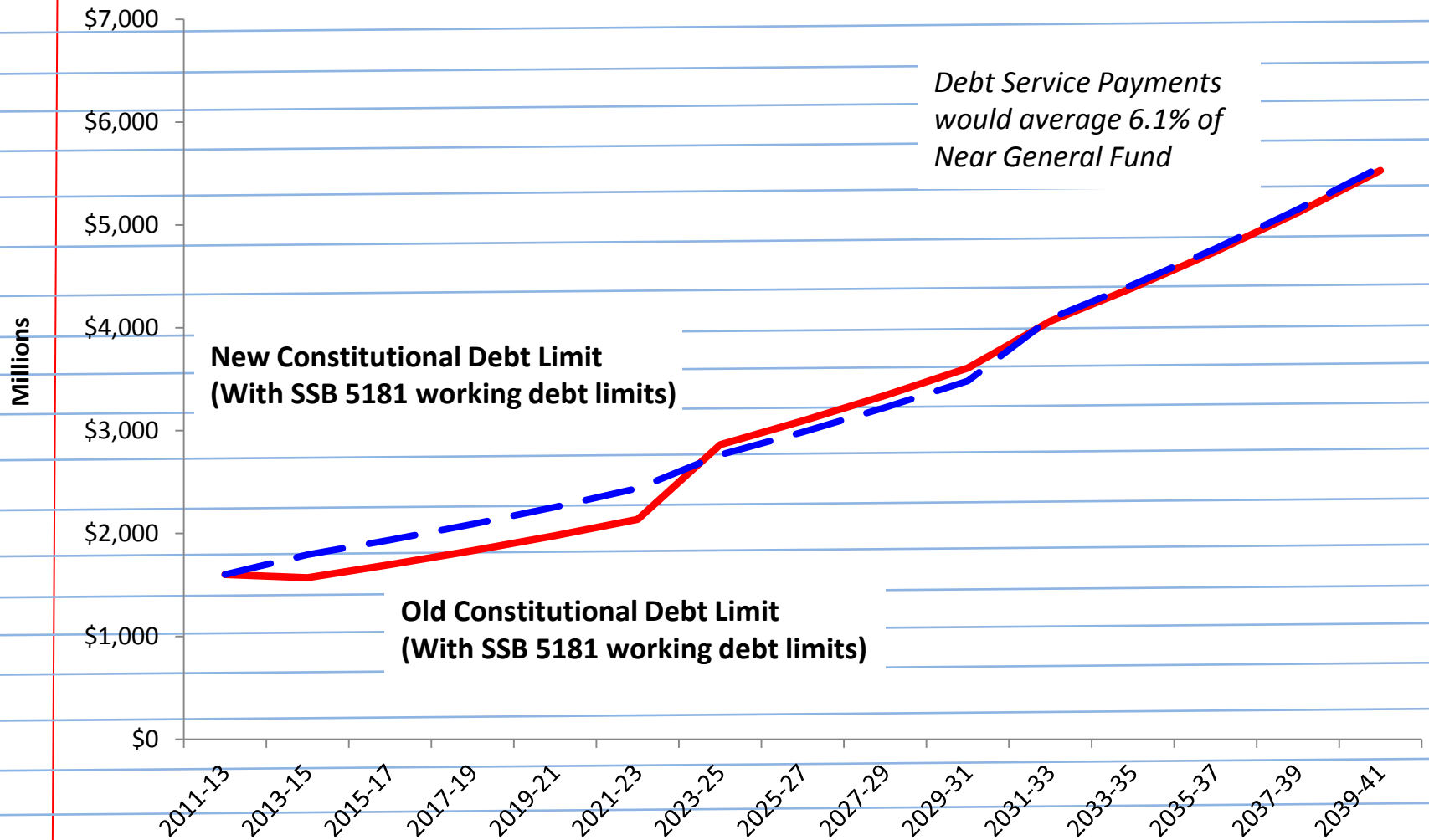
# New Constitutional Debt Limit May Slow the Pace of Borrowing

## *Projected Biennial Bond Capacity*



\*Represents appropriation capacity for a biennium. Bonds for a biennial appropriation are expected to be issued over four years.

**If Working Debt Limits Specified in SSB 5181 Remain Unchanged,  
Projected Biennial Bond Capacity is Higher in the Short Run and about  
the Same in the Long Run.**



\*Represents appropriation capacity for a biennium. Bonds for a biennial appropriation are expected to be issued over four years.

## What actions might Raise or Lower Bond Capacity?

- Undedicating or dedicating certain revenue
- Raising or reducing general revenue taxes
- Resolving or not resolving structural budget imbalance

The State Constitution requires a **60% vote** to authorize **State Debt**

State Debt includes:

- General Obligation Bonds limited by the debt limit, and
- Revenue bonds paid for with state taxes.

Some debt does not require 60%

Simple Majority Debt:

- Debt for real property paid for with fees or subject to appropriation.

Delegated Debt Authority (examples):

- Research universities
- Energy efficiency
- Equipment

## What's it Cost to Borrow \$100 Million?

Bond Amount      \$100,000,000

Interest Rate      4%

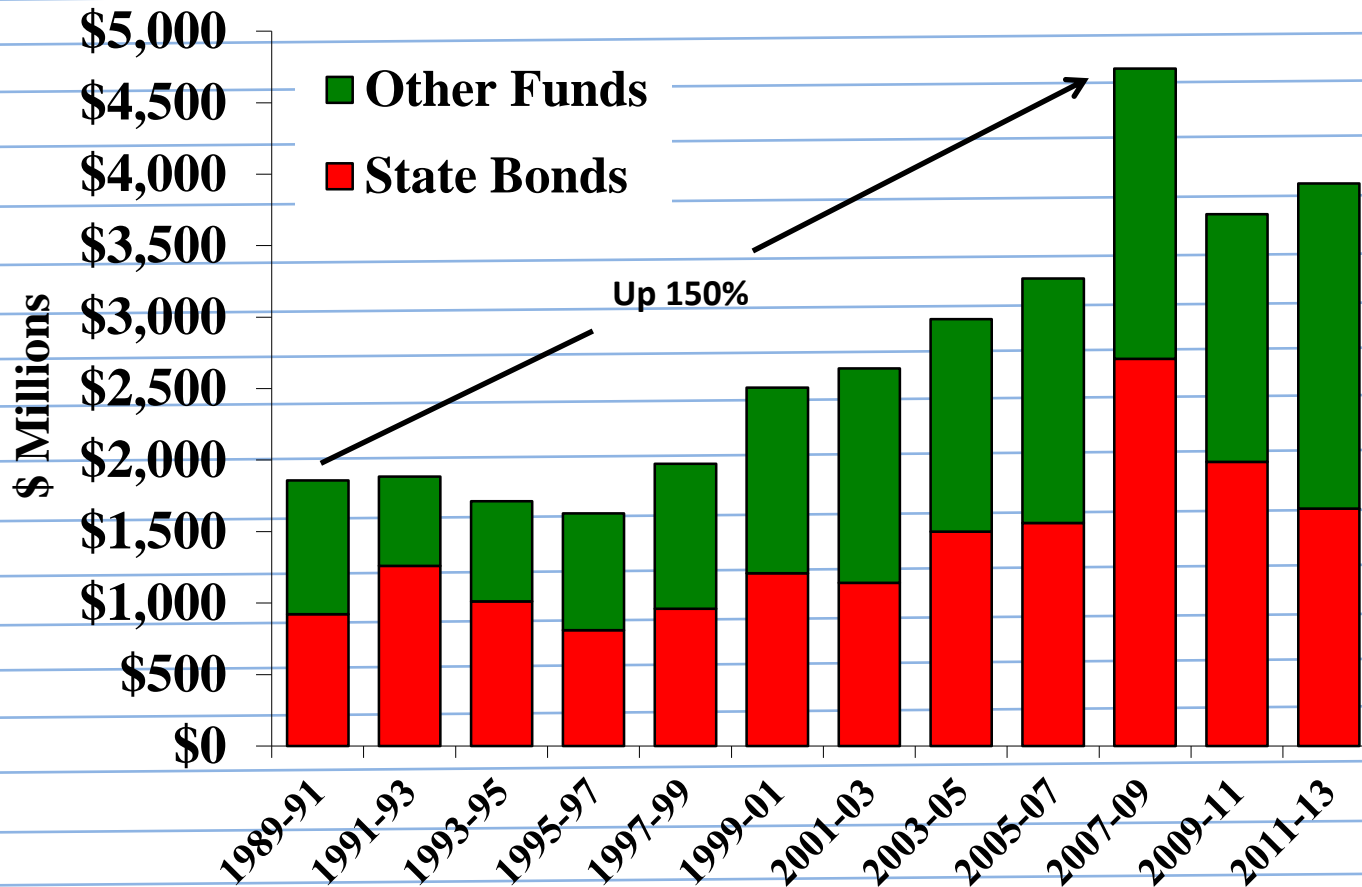
Term      25 Years

---

Annual Debt Service      \$6,500,000

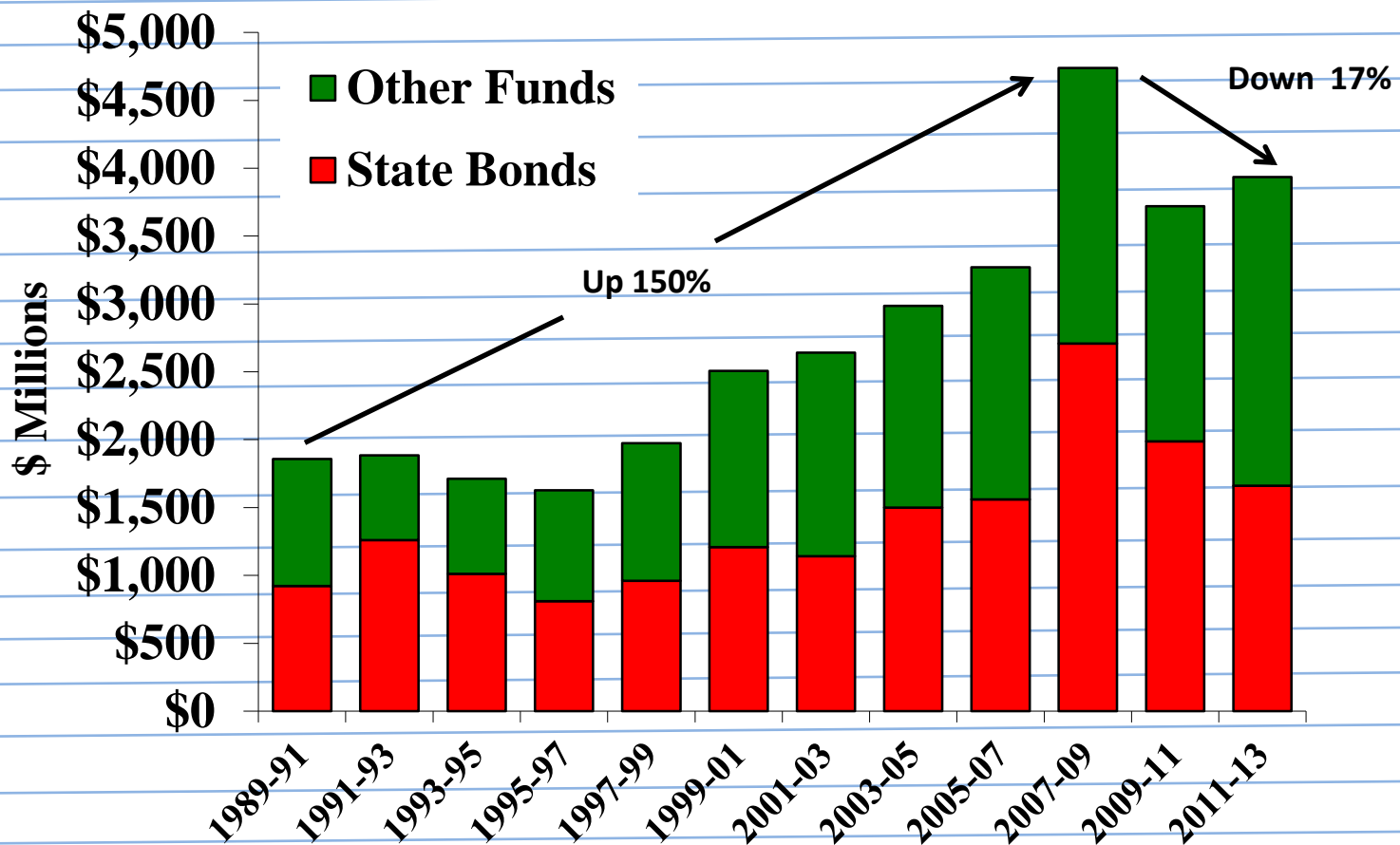
# Capital Budget Trends

# Capital Budget Peaked in 2007-09

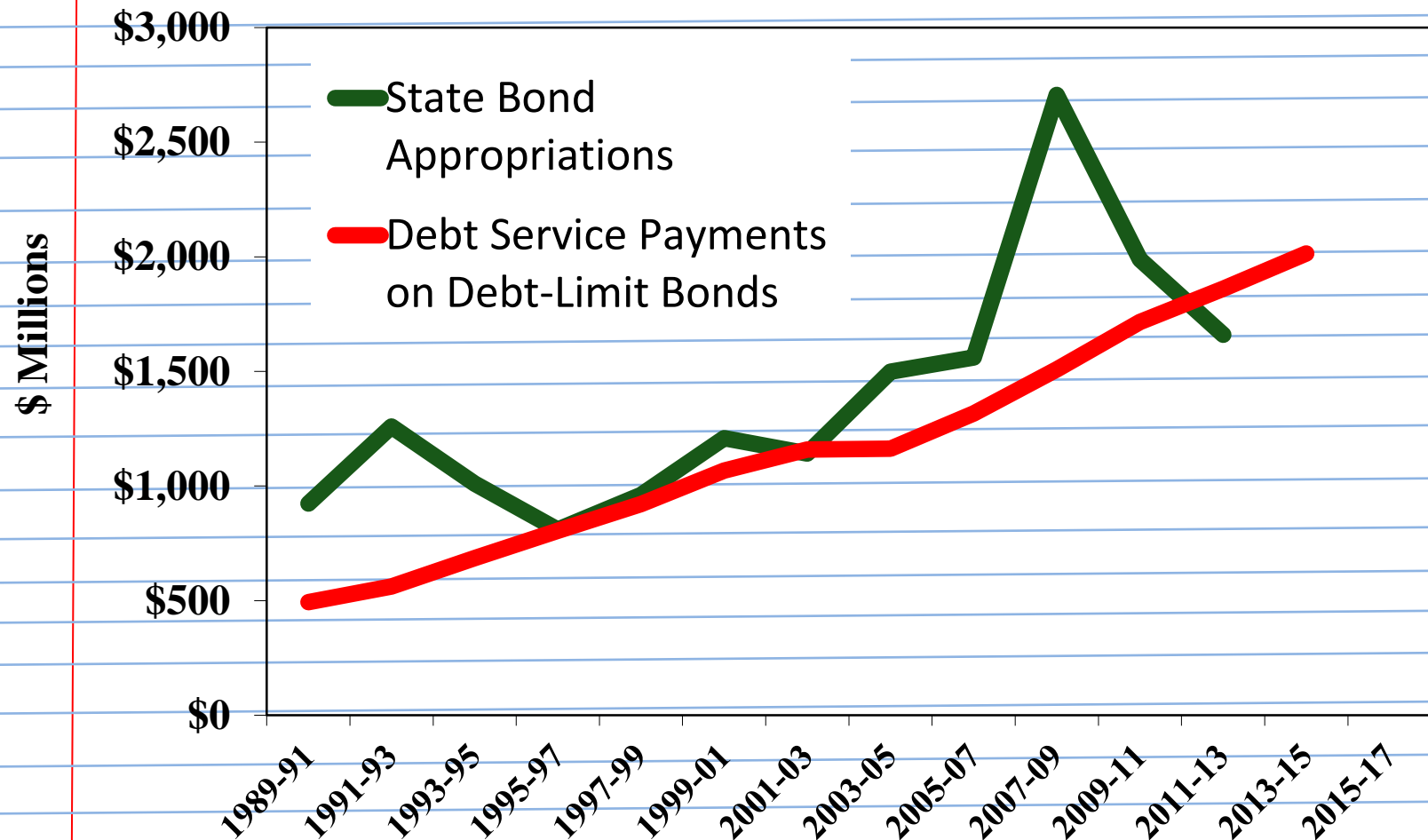




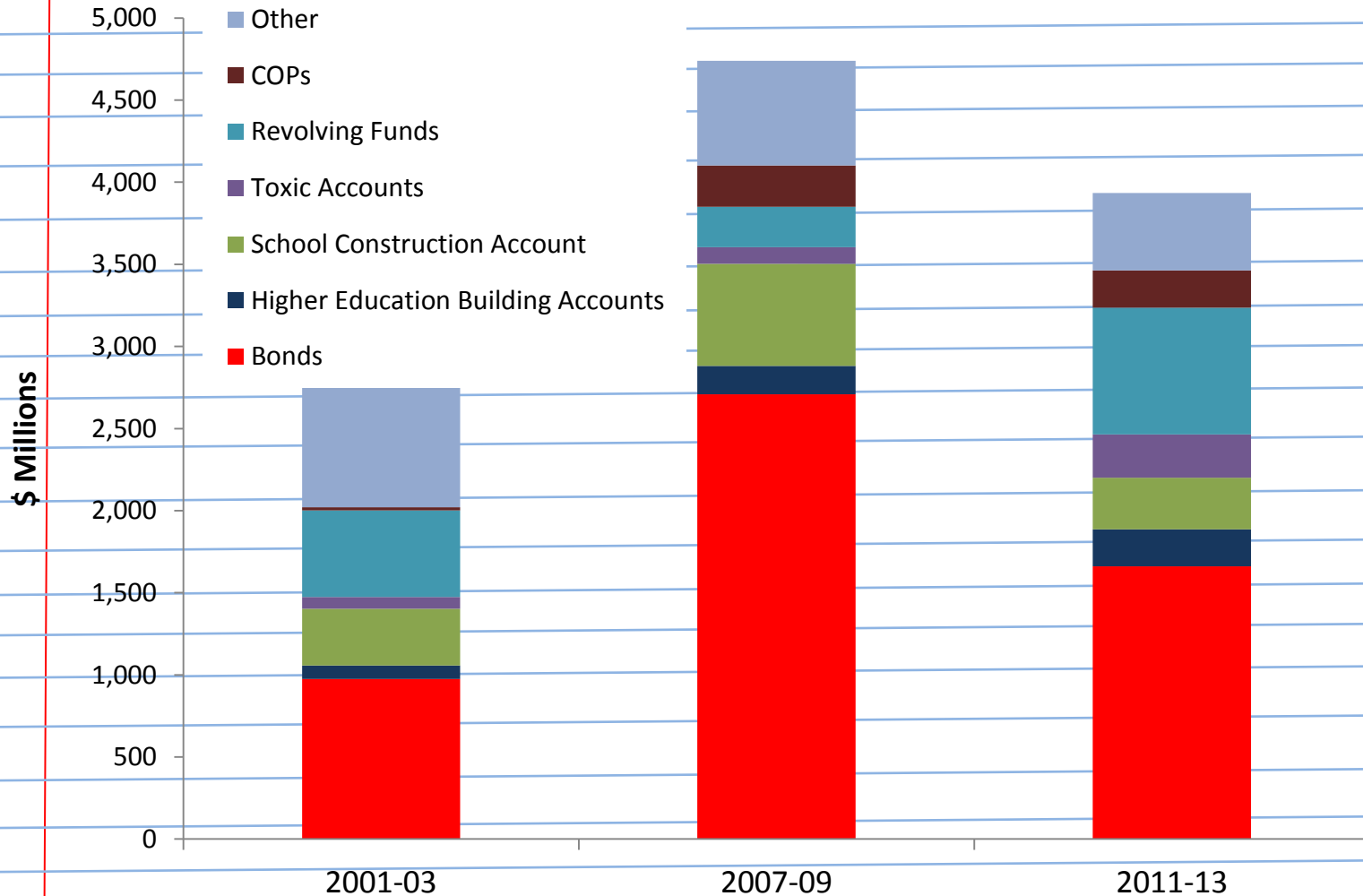
# Bond Capacity Dropped by 39% from the Peak



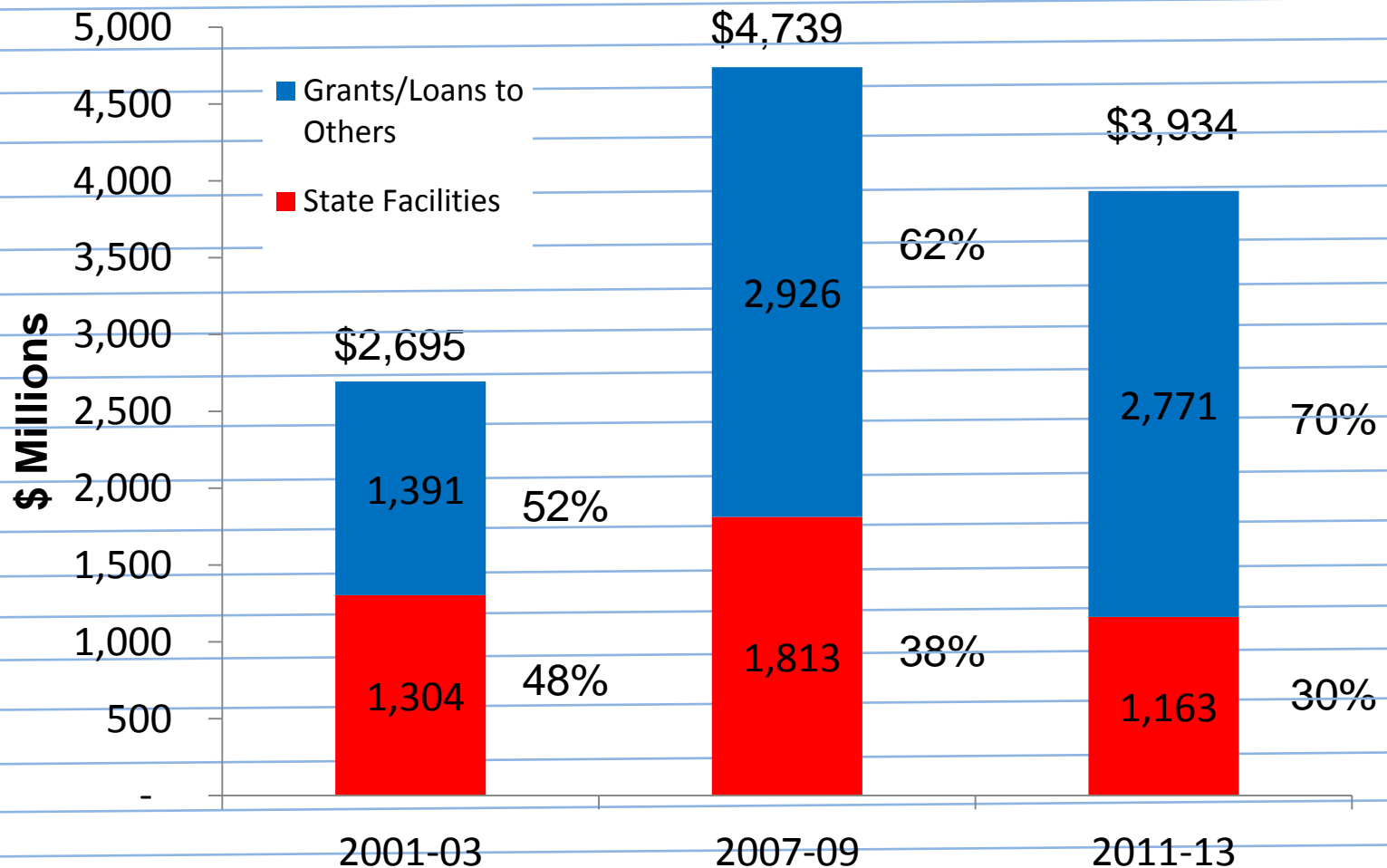
# Debt Service Payments will Rise next biennium even without authorizing any new debt



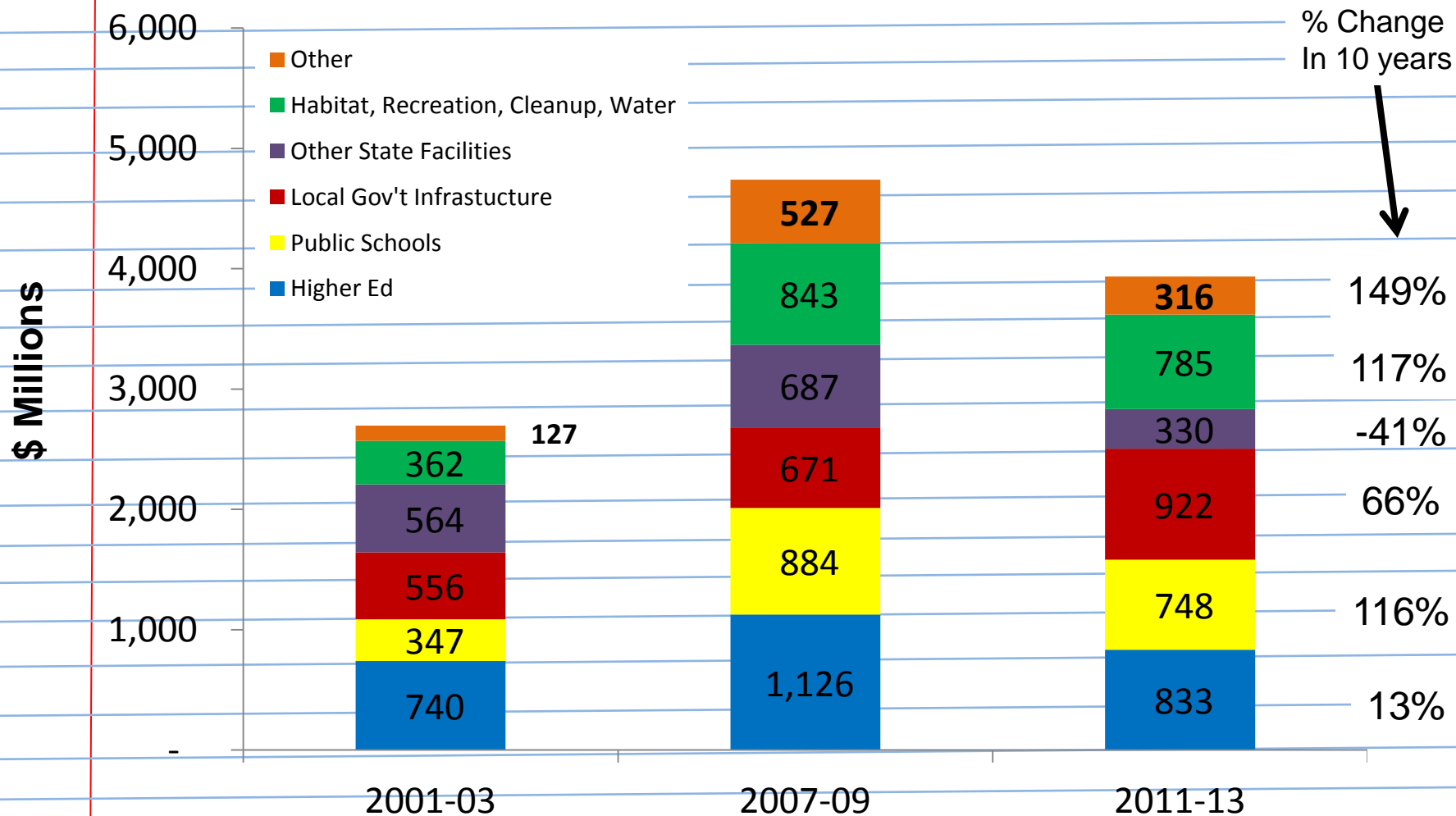
# The Capital Budget Rises and Falls Largely Due to Bond Capacity



# A Growing Portion of the Capital Budget as Grants/Loans to Others

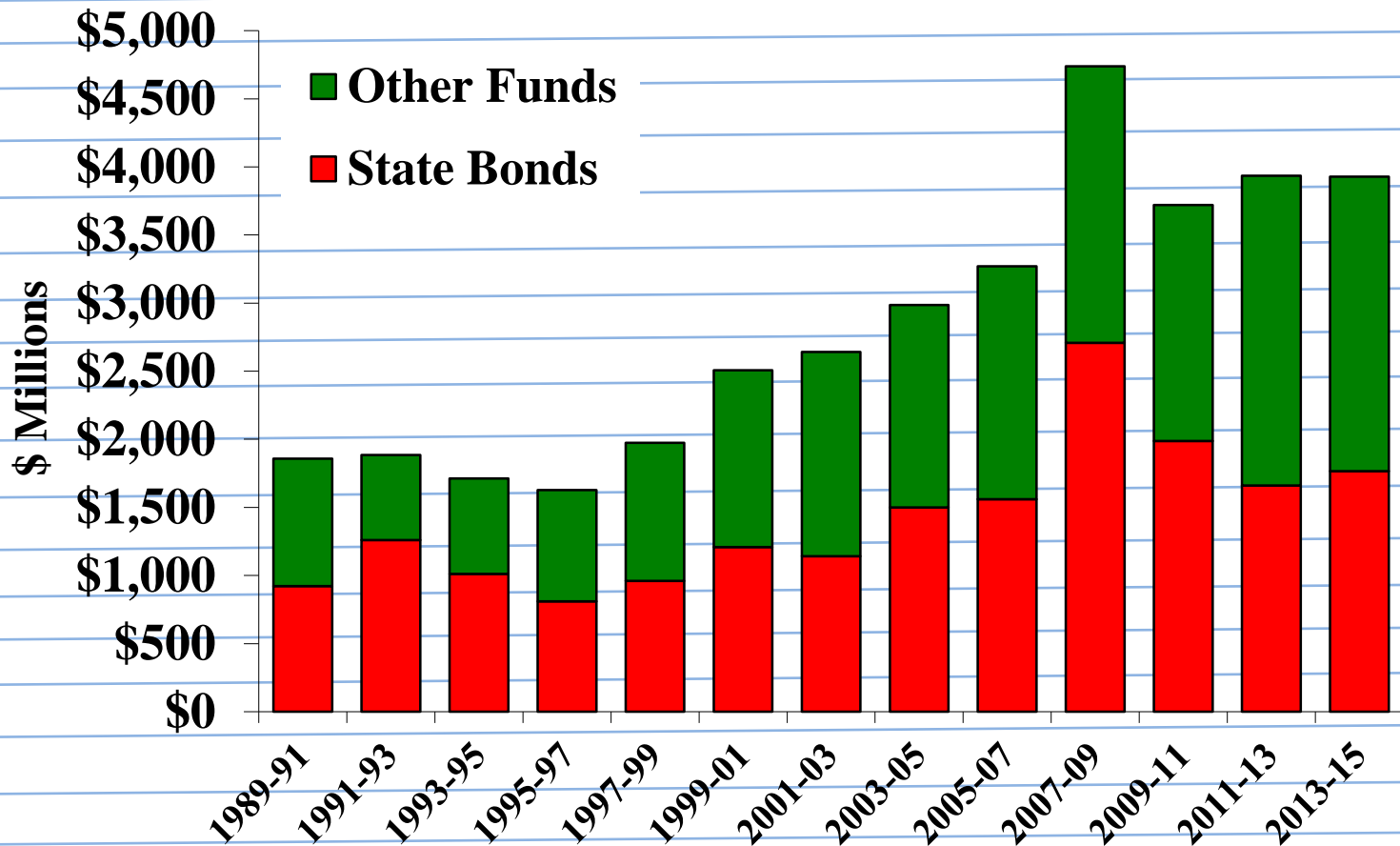


# Funding has shifted to Local Gov't Infrastructure, the Environment, & K-12

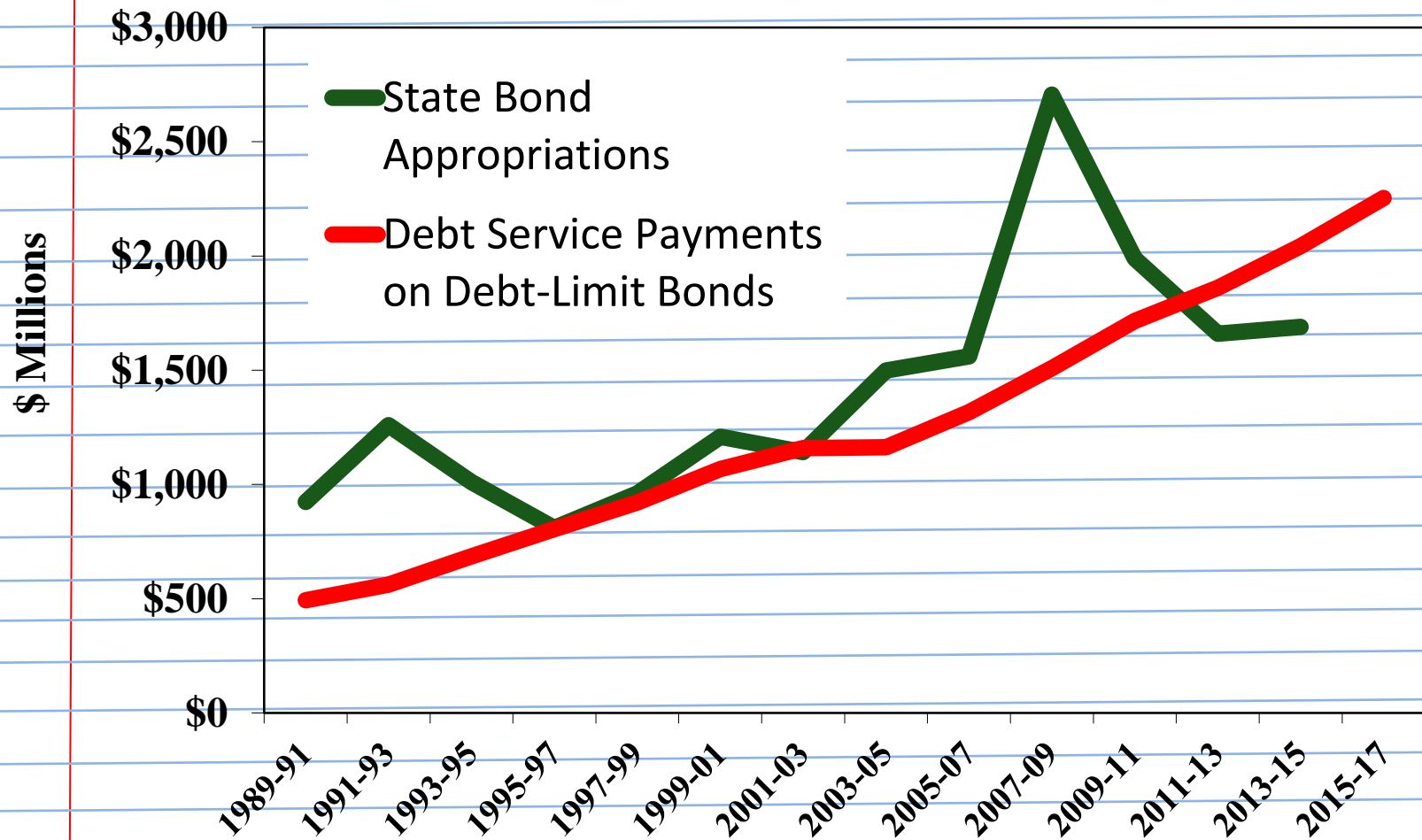


# Governor Grégoire's Capital Budget Request

# Governor Gregoire's 2013-15 Request uses Similar Bond and Cash Amounts as 2011-13

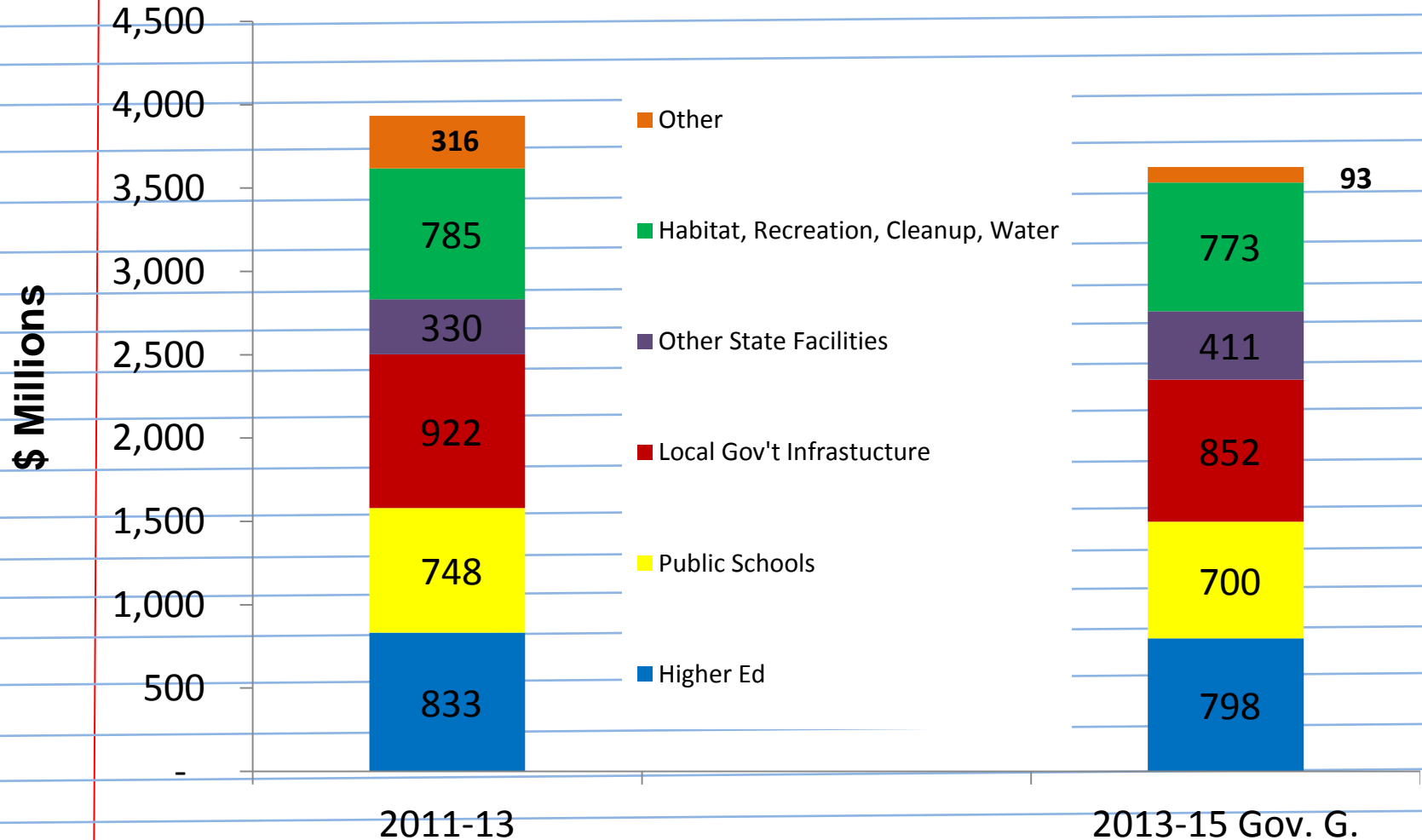


# Governor's Capital Budget Authorizes an additional \$1.7 Billion in new G.O. Bonds





# Governor Gregoire's Budget Request Maintains Similar Allocations



# Major Questions for the 2013-15 Capital Budget

- ✓ How much do you want to borrow?
- ✓ What capital resources will support your operating budget solution?
- ✓ Are there major new capital budget demands on the horizon?
- ✓ How will you balance any new demands with traditional allocations?

# Appendix

	2001-03		2007-09		2011-13		Gov G 2013-15	
Millions	Bonds	Total	Bonds	Total	Bonds	Total	Bonds	Total
State Facilities								
Higher Education	440	740	795	1,126	402	833	475	798
Other State Facilities	274	564	396	687	223	330	281	411
Total State Facilities	715	1,304	1,191	1,813	625	1,163	757	1,209
% of Total	73%	48%	46%	38%	38%	30%	43%	33%
Non-State Facilities								
K12 Facilities	0	347	226	884	434	748	508	700
Land, Habitat & Recreation	128	268	305	524	185	457	257	458
Cleanup Projects	0	71	103	204	5	244	0	169
Local Gov't Infrastructure	10	556	177	671	33	922	12	852
Water Supply and Flooding	10	23	115	115	77	84	146	146
Other (Housing, Nonprofit Grants & Misc)	118	127	461	527	302	316	88	93
Total Non-State Facilities	265	1,391	1,387	2,926	1,035	2,771	1,011	2,419
% of Total	27%	52%	54%	62%	62%	70%	57%	67%
Total	980	2,695	2,578	4,739	1,660	3,934	1,767	3,628